LPL RESEARCH

WEEKLY ECONOMIC COMMENTARY

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JULY PREVIEW

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KEY TAKEAWAYS

July will be a busy month for economic data and markets will be paying close attention to global central banks and the start of another earnings season.

Three major central banks (the Fed, ECB, and BOJ) will meet within a week of each other later in the month.

Markets will be watching for progress (or lack thereof) on major policy initiatives in Congress ahead of their planned August recess, which begins July 28.

As June ends and summer sets in, markets continue to track near all-time highs and volatility remains low. As we turn the page to July, there will be plenty of significant events for markets to watch such as the June employment report, the start of earnings season, and an action packed week later in the month which will see three major central banks meet within a one-week period. It is always important to stay on top of major market events, and to help we've created this guide to the July 2017 market calendar.

JULY 7

EMPLOYMENT REPORT (JUNE)

The U.S. economy created 138,000 jobs in May 2017, which was widely seen as a disappointment given the consensus expectation of 185,000. This followed a gain of 211,000 jobs in April, which was on the high end of estimates. One-year average job creation was 188,000 following May's report, and economists anticipate this basic trend to continue, with consensus expectations currently at 173,000 jobs created in June.

The Federal Reserve (Fed) hasn't seemed too worried about intermittent bumps in the path of job creation, and probably sees job growth as low as 100,000–125,000 per month as enough to continue to support the unemployment rate, currently at 4.3%. Wages will also be watched closely. Average hourly earnings grew at 0.2% month over month in May and 2.5% year over year, with similar expectations for June. The labor force participation rate continues to receive attention, as the downtick in the unemployment rate in May was driven by a drop of 0.2% in labor force participation. However, even after this drop, the 62.7% labor force participation rate remained above the expansion low of 62.4% set in September 2015 [Figure 1]. A rising participation rate could help to limit wage pressures by increasing the supply of people willing to work. Wage pressures thus far have remained modest, and the Fed will be watching closely for any increase that may signal a pickup in inflation. The number of net new jobs has been positive for a record 80 consecutive months; job creation would need to slow to a sustained 25,000–50,000 per month to signal that a recession is near.

The *Weekly Economic Commentary* will not be published on July 3, 2017. Look for our next publication on July 10, 2017. We wish you all a happy and healthy Independence Day!

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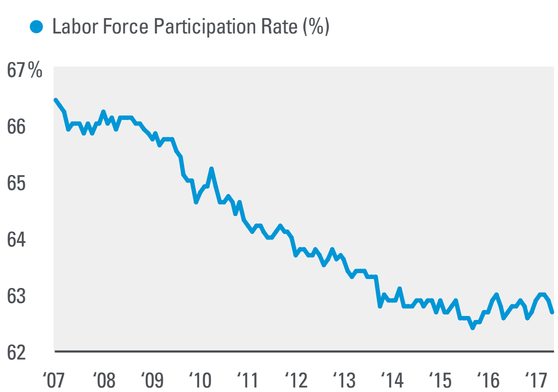
WEEK OF JULY 10
EARNINGS SEASON BEGINS

Corporate America will try to follow up its strong first quarter earnings performance in the second quarter, as earnings season begins the week of July 10. Consensus estimates currently reflect a 7.9% year-over-year increase in the second quarter, though it is often the case that upside surprises push the final number higher. With this in mind it's possible that the S&P 500 Index could reach double-digit-earnings growth again, though a repeat in last quarter's 15% pace would be difficult. Reasons for optimism include resilient forward estimates in recent months and an above-average ratio of negative-to-positive pre-announcements — situations where companies provide updated earnings guidance prior to the final report. Weaker energy prices will likely be a drag on energy sector profits for the quarter, though the sector is still expected to be a solid contributor to year-over-year growth, along with financials and technology. Look for an earnings preview in our *Weekly Market Commentary* on July 10.

1 LABOR FORCE PARTICIPATION HAS BEEN DECLINING IN RECENT YEARS



Source: LPL Research, Bloomberg, U.S. Bureau of Labor Statistics 06/26/17

The labor force participation rate is the percentage of the population that is either employed or unemployed (that is, either working or actively seeking work) People with jobs are employed.

People who are jobless, looking for a job, and available for work are unemployed. People who are neither employed nor unemployed are not in the labor force.

JULY 20
CENTRAL BANK ACTION BEGINS

All three major central global banks will meet within a six-day period in July, with statements from the Bank of Japan (BOJ) and European Central Bank (ECB) expected on July 20, and the Fed's decision due on July 26.

The BOJ's last meeting ended on June 16, and resulted in no change in policy. However, the BOJ's statement had a dovish tilt, as they signaled confidence in the economy by upgrading their view of private consumption for the first time in six months. However, the BOJ continues to buy stocks and bonds to help support the Japanese economy. Markets will be on the lookout for any additional changes to the bank's view of economic progress, but with growth still subpar and inflation below target, we expect the BOJ will maintain its current policy.

The ECB's statement will also come on June 20, and tension remains beneath a calm surface. The ECB has committed to buying 60 billion euro of bonds each month until December 2017, in hopes that its program will continue to aid the economy and keep the region from slipping into deflation. While that goal has largely been achieved, Eurozone inflation remains below the ECB's 2% goal on an annual basis. With some countries, like Germany, desiring an end to monetary intervention and others (probably most notably Italy) looking to extend current policies, the ECB statement will be closely scrutinized. It will remain difficult, if not impossible, for it to satisfy all parties in the long run.

The July meeting of the Federal Open Market Committee, the policy arm of the Fed, takes place from July 25–26. After increasing rates in June for the fourth time this cycle, expectations for a rate hike in July are very low (just 2.5% currently). The Fed also announced more details regarding its balance sheet normalization plan in June, but markets are widely expecting the Fed to wait for its September meeting to begin implementation.

Overall, it appears that the July meeting may provide little for markets to respond to. The policy statement will not be accompanied by updated economic projections or rate expectations. Market participants will have to parse the brief policy statement itself, released at 2 p.m. ET on July 26, to gain any further insight on the Fed's intentions. Markets will continue to watch the statement closely for any signs of change, especially to the Fed's view of inflation, which was downgraded at the June meeting.

JULY 28

LAST DAY BEFORE CONGRESSIONAL RECESS

Unless Congress cancels its August recess, a proposal that has gotten some chatter but is unlikely, Congress will not be in session between July 28 and September 5. Markets will be watching Congress for potential progress on a number of fronts. The top priority for markets is likely prospects for corporate tax reform, which directly impacts earnings. But in order to get to tax reform, several other dominos need to fall first. Republicans want to pursue tax reform under a process called "reconciliation," which prevents a filibuster in the Senate. But in order for that to apply, Congress has to adopt a 2018 budget, and it can't do that until it passes (or abandons) the American Health Care Act. The debt ceiling is another potential stumbling block. With majorities in both houses of Congress, Republicans should be able to push through legislation, but the party represents diverse views, and both its conservative and centrist wings may seek concessions on their own legislative priorities.

There are some possible, if unlikely, ways to fast track legislation. On healthcare, the House could simply accept the Senate version of the bill, bypassing the need to reconcile the two versions before it goes to the president to sign. There's a better chance for quick passage of a bill raising the debt ceiling, but fiscal conservatives are likely to demand offsetting spending reductions. There are also meaningful differences among Republicans around the 2018 budget. Markets will likely just be looking for steady progress and minimal in-fighting. No one ever called the process of passing legislation pretty, but serious delays could be market negative, while meaningful progress that gets us closer to corporate tax reform may be well received.

CONCLUSION

Markets will have plenty of data to watch in July. With the start of earnings season, a congressional recess on the horizon, and three major central bank meetings in the span of one week, the odds for some summertime volatility may be higher than usual. After weak growth in the first quarter, economic data will be heavily scrutinized to see if the U.S. economy might stage a second half bounce. With summertime upon us, it is important to remember to have a plan in place before these events unfold. While our market calendar may not help with summertime heat, it can help investors keep a cool head by remaining aware of the key events to watch for. ■

Thanks to Barry Gilbert and Jeff Buchbinder for their contributions to this report,
and please see the next page for our July calendar.

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Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
25	26	27	28	29	30	1
2	3 ISM: Mfg.	4 Independence Day	5 June Fed Meeting Minutes	6 ISM: Services	7 Jobs Report	8
9	10 Earnings Season Begins	11	12 Beige Book	13 PPI	14 CPI Retail Sales	15
16	17	18	19 Housing Starts	20 ECB Announcement BoJ Announcement	21	22
23	24 Existing Home Sales	25 Fed Meeting Begins Consumer Confidence	26 Fed Meeting Announcement New Home Sales	27 Durable Goods	28	29 Q2 GDP Advance Estimate August Congressional Recess Begins
30	31	1	2	3	4	5

Source: LPL Research 06/26/17

IMPORTANT DISCLOSURES

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Because of its narrow focus, sector investing will be subject to greater volatility than investing more broadly across many sectors and companies.

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